

### C. Summary of Economic Reforms & Democratization

*Table 8* and *Figure 1* provide an overall picture of the status of the economic policy reforms and democratic freedoms in the transition countries in 2000. With one country exception, the economic policy reform ratings represent an equally weighted average of all twelve EBRD policy indicators (that is, from both stages).<sup>26</sup> The democratic freedom ratings are calculated from Freedom House, *Nations in Transit 2000-2001* (forthcoming). Specifically, the six democratization components of *Table 5* are averaged for each country, and then compressed into a one-to-five scale with five representing the most advanced (or most free) to better align with the economic policy reform scale.

The results reinforce several observations made in previous *Monitoring Country Progress* reports. First, the Northern Tier CEE countries continue to be far out front of the rest of the transition countries in progress towards economic and democratic reforms. *Figure 1* suggests that there are broadly two groups of transition countries differentiated by reform progress, a "well-defined" or closely clustered Northern Tier CEE group and the rest (which are characterized by very large differences in reform progress among them). Second, *Table 8* shows that while the average ratings of economic policy reforms and democratic freedoms are very close for the transition region as a whole ("2.9" for economic reforms vs. "2.7" for democratization), the range in progress is significantly greater in the case of democratic reforms. The reform leaders have democratic freedoms roughly on a par with some Western democracies, while the democratic laggard, Turkmenistan, scores among the least democratic countries worldwide. In economic policy reforms, however, even the Northern Tier CEE countries still have far to go to reach the standards in the industrial market economies. This is particularly evident in the second stage economic reforms.

Third, taking stock of the changes in reform progress in 2000, one finds that the Northern Tier CEE countries continue to move towards convergence in reforms. The three Baltic countries moved forward in both reform dimensions in 2000. Hungary and the Czech Republic slipped a notch in democratization. The remaining Northern Tier countries moved forward in either economic or democratic reforms, but not both. This trend towards convergence reflects in large part that these countries have been approaching a reform "ceiling" (in democratization in particular), and/or that the remaining reforms (particularly in economic policy) are the hardest to achieve.

The fourth observation follows partly from the third. While the reform gap between the Northern and Southern Tier CEE countries remains large, it nevertheless continues to narrow. That is, of the three subregions, the greatest reform gains in 2000 occurred in the Southern Tier where a majority of countries (specifically, Croatia, Bulgaria, Albania, and Bosnia-Herzegovina) made progress in both economic and democratic reforms. Of all the transition countries, perhaps the most impressive and broad-based gains in 2000 occurred in Croatia. Bulgaria and Albania made very notable strides forward as well.

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<sup>26</sup> As previously noted, the economic reform score for Yugoslavia is drawn from Freedom House, *Nations in Transit 2000-2001* (forthcoming).

Yugoslavia advanced significantly in democratic reforms in 1999 and 2000, and is now poised to begin catching-up in economic reforms.

Finally, the 2000 reform data highlight the continuing divergence in transition paths between the Eurasian countries and CEE. This divergence can be viewed on several different dimensions, not just reform progress, but also macroeconomic performance, structural trends in the economies, and social conditions.<sup>27</sup> What is striking about the 2000 reform data is the juxtaposition between impressive gains in Eurasia in economic reforms with equally "impressive" backsliding in democratization, and how starkly that contrasts with the close and growing links between economic and democratic reforms among the CEE countries. In fact, in 2000, one-half of the Eurasian countries made gains in economic reforms while simultaneously backsliding in democratization: Georgia; Russia; Ukraine; Kazakhstan; Kyrgyzstan; and Belarus. All seven of the transition countries that experienced economic reforms advancing alongside gains in democratization in 2000 were in CEE: Estonia; Latvia; Lithuania; Bulgaria; Croatia; Albania; and Bosnia-Herzegovina.

*Figure 2* shows the reform dimension of the transition paths for four select countries since 1991: Poland, Slovakia, Russia, and Belarus.<sup>28</sup> Two broad reform paths can be discerned between the CEE and Eurasian countries. The first distinction is the very different "starting points" between the two groups (and very similar starting points within each pair). The CEE countries started the transition much further ahead in both economic and democratic reforms.

Since 1991, Poland and Slovakia both have made very impressive and steady gains in economic reforms, and more modest gains in democratization.<sup>29</sup> Today, Poland and Slovakia are again at similar levels of reform progress. The salient difference in paths between the two is that Slovakia experienced some temporary backsliding in democratization while Poland did not. As noted previously, the relatively modest gains in democratization during this period, and a slowing of progress in economic reforms more recently reflect both success (democratic freedoms are approaching a limit by worldwide standards) and growing challenges (that come with the implementation of more difficult economic reforms).

Contrast this with the reform trends in the two Eurasian countries of Belarus and Russia. While Russia's path may be the more typical for the Eurasian countries overall, both still have common threads that diverge significantly from those of the CEE countries.

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<sup>27</sup> *Appendix II: Transition Paths of Monitoring Country Progress*, No. 4 (October 1998) provides some elaboration on these dimensions.

<sup>28</sup> The method to measure reform progress in *Figure 2* was, out of necessity, simplified from that of *Figure 1* to capture estimates of earlier years. Democratic Freedoms were calculated from Freedom House's civil liberties and political rights indices (*Table 4*). Fewer economic reforms indicators were used to calculate the overall rating since some (in particular, legal reforms, infrastructure, and environmental reforms) are not available from the EBRD for earlier years.

<sup>29</sup> If 1989 is the starting point, the gains in democratization for both are much more impressive, particularly for Slovakia.

Specifically, both made steady, and particularly in the case of Russia, impressive gains in economic reforms to or through the mid-1990s. In the case of Belarus, economic reform progress peaked in 1995; for Russia, it was in 1997. By 1997, it looked as if Russia might catch the CEE countries in economic reform progress. However, since then, backsliding on balance has characterized economic reforms in both countries. In contrast to the CEE countries, earlier economic reform gains in these Eurasian countries proved to be unsustainable. Moreover, the backsliding in democratic reforms since 1991 has been significant for both, even though Russia was able to maintain a level of democratization for several years in the mid-1990s.

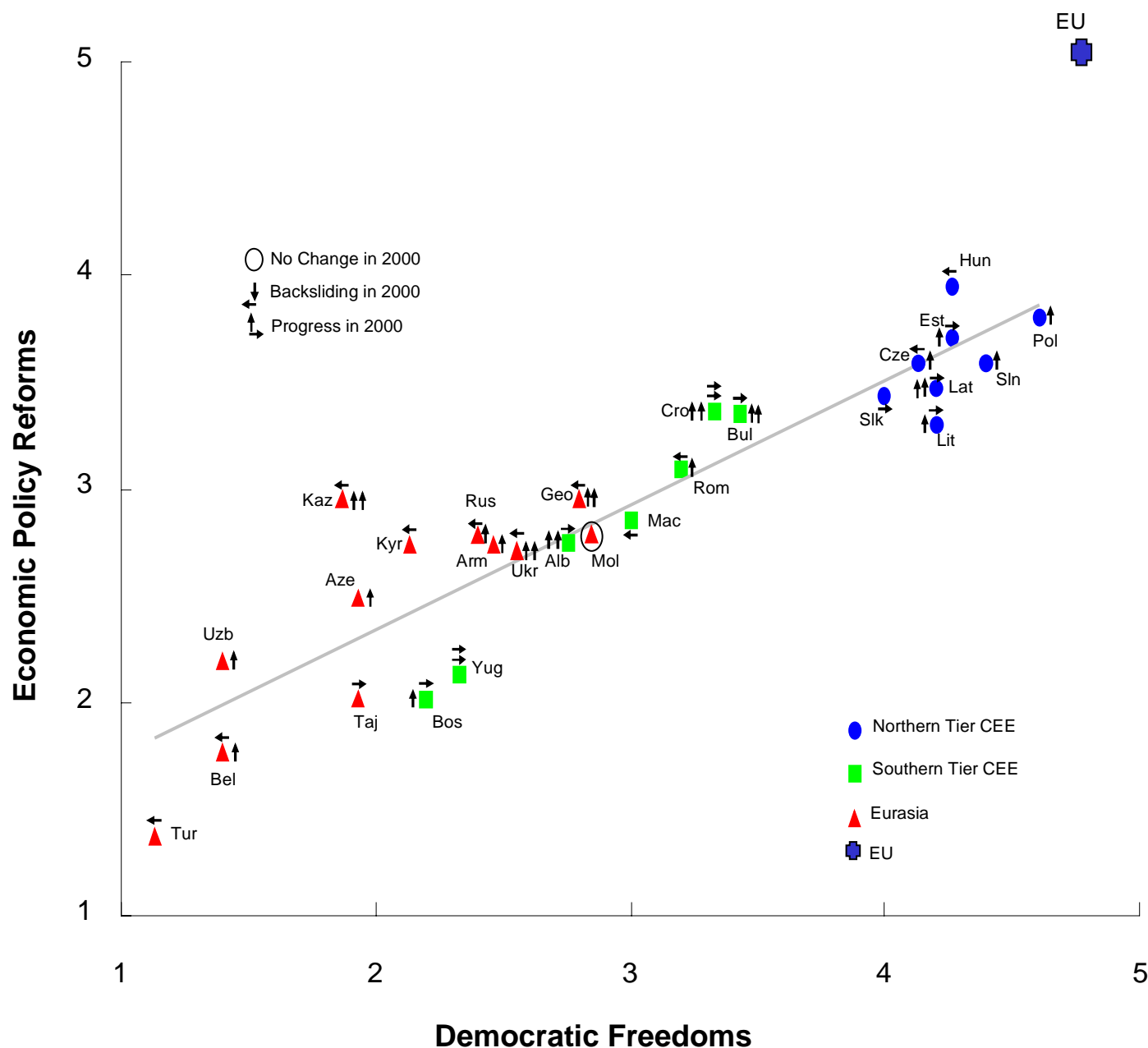
**Table 8. Economic Policy Reforms and Democratic Freedoms  
in Central & Eastern Europe and Eurasia: 2000**

<b>Economic Policy</b>			<b>Democratic Freedoms</b>		
<b>Country</b>	<b>Rating (1 to 5)</b>	<b>Ranking</b>	<b>Country</b>	<b>Rating (1 to 5)</b>	<b>Ranking</b>
Hungary	3.9	1	Poland	4.6	1
Poland	3.8	2	Slovenia	4.4	2
Estonia	3.7	3	Hungary	4.3	3
Slovenia	3.6	4	Estonia	4.3	3
Czech Republic	3.6	4	Lithuania	4.2	5
Latvia	3.5	6	Latvia	4.2	5
Slovakia	3.4	7	Czech Republic	4.1	7
Lithuania	3.4	7	Slovakia	4.0	8
Croatia	3.4	7	Bulgaria	3.4	9
Bulgaria	3.3	10	Croatia	3.3	10
Romania	3.1	11	Romania	3.2	11
Kazakhstan	2.9	12	FYR Macedonia	3.0	12
Georgia	2.9	12	Moldova	2.8	13
FYR Macedonia	2.8	14	Georgia	2.8	13
Moldova	2.8	14	Albania	2.7	15
Russia	2.8	14	Ukraine	2.5	16
Albania	2.7	17	Armenia	2.5	16
Kyrgyzstan	2.7	17	Russia	2.4	18
Armenia	2.7	17	Yugoslavia	2.3	19
Ukraine	2.7	17	Bosnia-Herzegovina	2.2	20
Azerbaijan	2.5	21	Kyrgyzstan	2.1	21
Uzbekistan	2.2	22	Azerbaijan	1.9	22
Yugoslavia	2.1	23	Tajikistan	1.9	22
Tajikistan	2.0	24	Kazakhstan	1.9	22
Bosnia-Herzegovina	2.0	24	Belarus	1.4	25
Belarus	1.8	26	Uzbekistan	1.4	25
Turkmenistan	1.4	27	Turkmenistan	1.1	27
<b>Rating (1 to 5)</b>			<b>Rating (1 to 5)</b>		
<b>CEE &amp; Eurasia</b>			<b>2.7</b>		
<b>Northern Tier CEE</b>			<b>4.4</b>		
<b>Southern Tier CEE</b>			<b>3.1</b>		
<b>Eurasia</b>			<b>2.2</b>		
<b>European Union</b>			<b>4.8</b>		
<b>OECD</b>			<b>4.6</b>		

Ratings of democratic freedoms are from Freedom House, *Nations in Transit 2000 - 2001* (2001), and assess reforms through October 2000. With 1 exception, economic policy reform ratings are from EBRD, *Transition Report 2000* (November 2000), and cover events through September 2000; economic policy reform rating for Yugoslavia is from Freedom House, *Nations in Transit 2000 - 2001* (2001). Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

Figure 1.

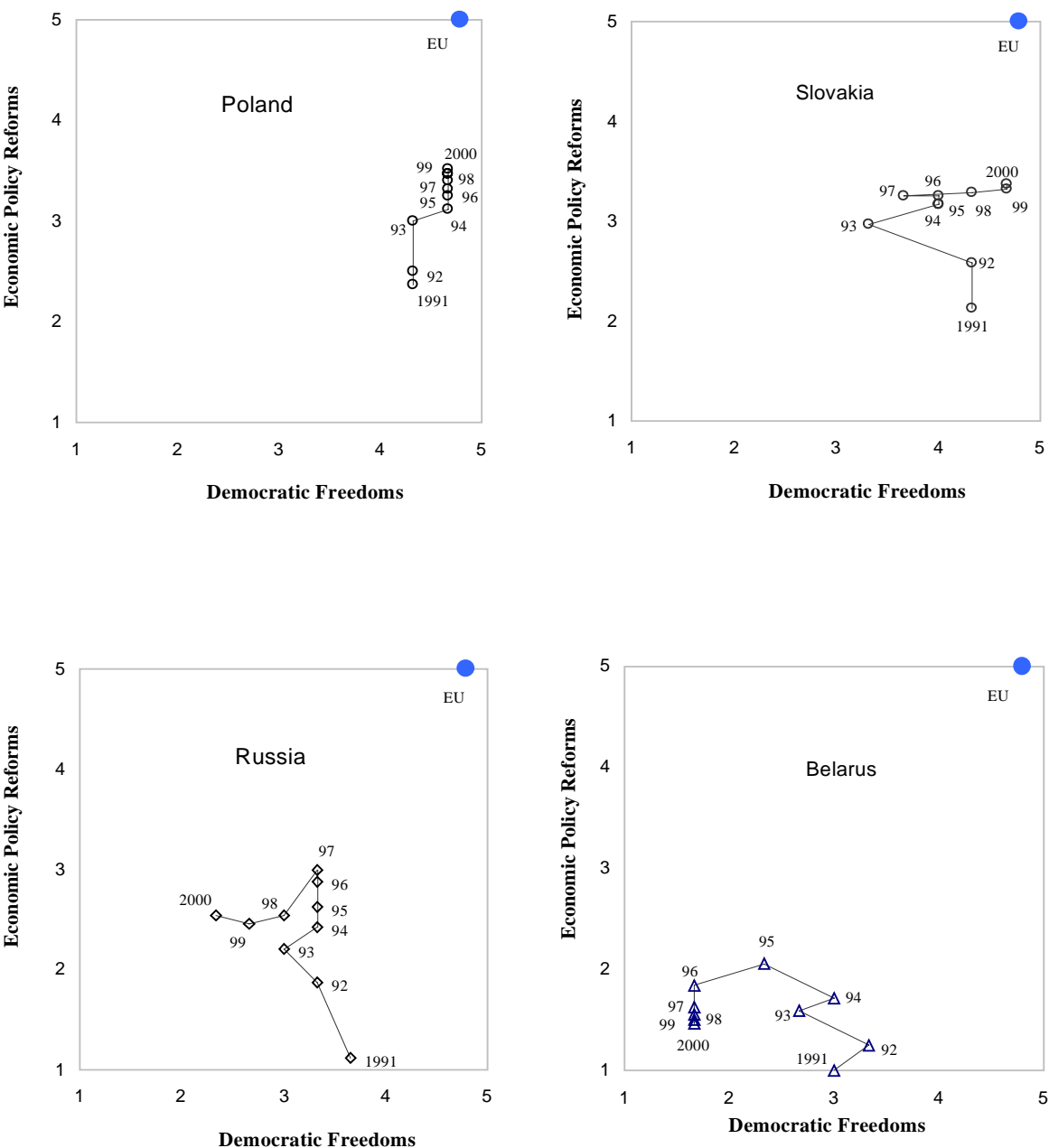
## Economic Policy Reforms and Democratic Freedoms in Central & Eastern Europe and Eurasia in 2000



Ratings of democratic freedoms are from Freedom House, Nations in Transit 2000-2001 (2001), and assess reforms through October 2000. With one exception, economic policy reform ratings are from EBRD, Transition Report 2000 (November 2000), and cover events through September 2000; economic policy reform rating for Yugoslavia is from Freedom House, Nations in Transit 2000-2001 (2001). Economic policy reforms include price liberalization, trade and foreign exchange, privatization, legal, banking and capital markets, enterprise restructuring (credit and subsidy policy), infrastructure, and environmental policy reforms. Democratic freedoms include political rights (free and fair elections; openness of the political system to competing political parties and to minority group representation; governance and public administration) and civil liberties (free media and judiciary; freedom to develop NGOs and trade unions; equality of opportunity and freedom from corruption). Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

Figure 2.

Economic Policy Reforms and Democratic Freedoms in  
Central & Eastern Europe and Eurasia: Selected Countries,  
1991 to 2000



Ratings based on a 1 to 5 scale, with 5 representing the most advanced.  
EBRD, *Transition Report 2000* (November 2000); Freedom House, *Freedom in the World* (various years).